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China Shows Savvy in Rio Tinto Deal

Purchase of Stake Puts Chinalco in Key Position As BHP Unveils Its Offer

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Corporate China has learned much since a failed attempt to take over U.S. oil company Unocal Corp. three years ago, potentially making it a more potent global player as it moves to secure resources abroad.

The latest example: **Aluminum Corp. of China**'s joint purchase with Alcoa Inc. of a 9% stake in miner Rio Tinto. The move puts the state-controlled Chinese company, known as Chinalco, in a key position: **BHP Billiton** has been trying to acquire Rio Tinto, and Wednesday unveiled a formal all-stock offer it valued at $147.4 billion that would create a global mining powerhouse.

Alcoa said it was studying the offer, while Chinalco declined to comment.

The joint stake was acquired quietly and at a strategically important time. Chinalco Chairman Xiao Yaqing also made immediate public appearances in London and Melbourne, Australia, where both Rio and BHP are based and traded and where regulators have been watching the takeover effort.

"Really, the timing and execution couldn't have been done better," says Michael Komesaroff, managing director of Urandaline Investments, an Australian commodities consultancy. "I'm surprised and impressed at the way they've gone about it."

To be sure, the purchase is less ambitious than the attempt by China's **Cnooc** Ltd. to acquire all of fellow oil company Unocal, an effort that met quick U.S. political resistance. Unocal was instead acquired by **Chevron** Corp.

China's biggest overseas acquisitions

Date Announced	Target	Acquirer	Value, in billions Of dollars
Feb. 1, 2008	**Rio Tinto**	Chinalco-Alcoa	$14.1
Oct. 25, 2007	**Standard Bank**	ICBC	5.6
Dec. 19, 2007	**Morgan Stanley**	China Investment Corp.	5.0
Aug. 22, 2005	**PetroKazakhstan**	CNPC	4.0
Aug. 10, 2006	**OAO Udmurtneft**	Sinopec	3.5
May 20, 2007	**Blackstone**	China Investment Corp.	3.0
July 23, 2007	**Barclays**	China Development Bank	3.0
Jan. 8, 2006	**NNPC-OML 130**	Cnooc	2.7
Nov. 28, 2007	**Fortis**	Ping An Insurance	2.7

Source: Thomson Financial; WSJ research

Still, the $14.05 billion joint purchase is the largest single deal abroad by a Chinese company to date. It shows a shift away from attempts to acquire full control and instead buy minority stakes, thereby dodging many regulatory issues and helping mute political reaction. Chinalco also isn't asking for board representation, presenting its investment as passive.

Like the scotched Unocal deal, the purchase figures into China's rising interest in natural resources, as it becomes one of the world's biggest consumers of raw materials and as commodity prices rise. Mr. Xiao has said

Chinalco isn't interested in a takeover of Rio and could sell its stake to a bidder, but the purchase gives the company a big say in Rio's fate.

The Chinalco acquisition could still encounter resistance, in part because of Chinalco's ownership by the Chinese government. Australian Prime Minister Kevin Rudd, responding to a question about the Chinalco deal Tuesday in Canberra, noted that separate rules apply to investment in Australian assets by a foreign government than to other foreign investors.

Chinalco and Alcoa managed to snap up 9% of Rio by purchasing London-listed shares overnight Thursday, while avoiding leaks that might have alerted the market to their plans and given BHP time to respond.

People familiar with the deal say Chinalco was able to act swiftly -- not always easy for a state-owned company -- meeting deadlines and securing the necessary Chinese approvals. That was particularly crucial in this case because of Wednesday's deadline, imposed by United Kingdom regulators, for BHP to make a complete offer for Rio or walk away.

"We were impressed that putting together this deal was a relatively quick process," says a person familiar with the deal. "It shows the progress that China is making in terms of executing global M&A deals."

By teaming up with Alcoa, Chinalco could help show the deal was commercially driven and mute suspicions that it was orchestrated by the Chinese government. "Nobody believes that Alcoa would spend $1.2 billion on a deal like this for anything other than profit motivations," says a person close to the situation.

Lehman Brothers Holdings Inc. and China International Capital Corp., the Chinese investment bank, advised Chinalco.

The deal has thrust Mr. Xiao, the head of both Chinalco and its listed unit, Aluminum Corp. of China Ltd. or Chalco, into the international spotlight. At 49 years old, he is relatively young for the head of a Chinese state company, and was among the first generation of Chinese students to enter university after the Cultural Revolution.

An engineer trained at a little-known regional university, Mr. Xiao earned his stripes working in an aluminum factory. He has political clout to match his management skills, as an alternate member of the Communist Party's elite Central Committee, a rank held by few state company executives. He joined Chinalco in 2004, and since then has set his sights on turning Chinalco, already the world's second-largest producer of aluminum, into a diversified global metals company.

The company last year bought Peru Copper Inc. and took control of a Chinese miner. Some analysts believe Chinalco and Alcoa are mostly positioning themselves to snap up some of Rio's aluminum assets if BHP's takeover succeeds, but Chinalco describes the Rio investment as a further step in its diversification.

--Rachel Pannett in Canberra, Australia, contributed to this article.

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